

FDIC State Profile

Winter 2004

Georgia

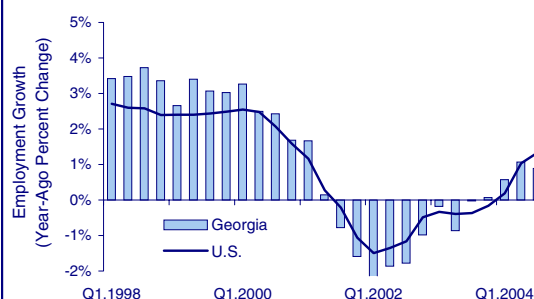
Georgia's economy continued to expand modestly during 2004, but risks persist for 2005.

- Georgia's economy continued to expand through late 2004 (See Chart 1), although at a rate slightly below the national average. None of the state's metropolitan areas saw employment growth during the third quarter in excess of the national average. **Athens** and **Columbus** actually saw year-ago employment declines. **Atlanta**, particularly southern portions of the metropolitan area, such as **Fayette County**, will remain vulnerable in 2005 because of continued troubles at its top private employer, **Delta Airlines**.
- Jobless rates in Georgia throughout 2004 remained near their lowest levels since just prior to the recent recession. Several rural counties, however, were still experiencing high rates of unemployment (See Map 1). The state's **Department of Labor** also continued to report a steady stream of upcoming layoffs during the second half of the year, and initial unemployment insurance claims remain stubbornly high.
- The economic downturn hurt Atlanta's high-tech industries, which had been a major driver of the state's economy. The sector remains weak with roughly one quarter of the metropolitan area's largest high-tech employers reporting job cuts in excess of 300 workers during the past year. A few companies, however, have reported some growth, and industry-wide employment losses have abated from the more severe levels in 2001 and 2002.

Residential construction activity in Georgia remains at record levels.

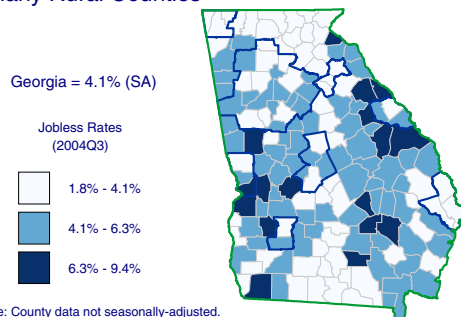
- Homebuilding has been a critical component of Georgia's economic recovery. Permit issuance in the state continued to trend upward through late 2004, signaling that near-record construction activity is expected to persist into 2005. At community banks¹ in Georgia, construction and development (C&D) lending, which is primarily for residential real estate construction, grew 46 percent during

Chart 1: Georgia's Employment Growth Has Tracked the Nation



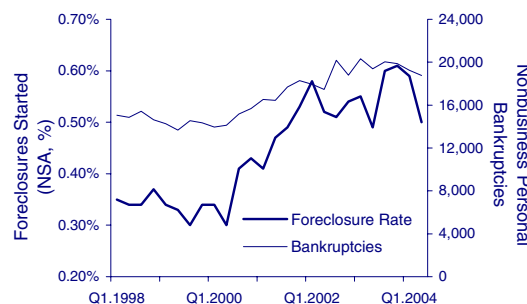
Source: Bureau of Labor Statistics/Haver Analytics

Map 1: Georgia Jobless Rates Remain High in Many Rural Counties



Note: County data not seasonally-adjusted.
Source: Bureau of Labor Statistics/Haver Analytics

Chart 2: Personal Bankruptcy Filings in Georgia Remain Near Historical Highs



Source: US Courts, Mortgage Bankers Association (Haver Analytics)

¹Community banks have assets less than \$1 billion dollars and exclude denovos and specialty institutions. This group of banks has been adjusted for mergers.

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the 12-month period ending September 30, 2004. C&D loans accounted for 16 percent of total assets for banks headquartered in the state; half of this lending exposure can be directly attributed to the Atlanta MSA.

- Community banks headquartered in the state rely on real estate-related income for nearly half their earnings. While it is probable that strong loan growth may be muting any potential deterioration in C&D loan performance, at period end asset quality metrics remained in good health. Nevertheless, a setback in housing could have substantial implications for the state's banking industry.
- Commercial real estate (CRE) conditions across market types in the Atlanta metropolitan area showed some improvement. Supported by modest economic growth, absorption rates in the metropolitan area remained positive during the first three quarters of 2004. Although this halted the upward trend in vacancy rates, they remain well into the double digits.

Several areas of Georgia continue to see credit quality deterioration.

- Georgia consumers remain under financial stress (See Chart 2). Nationally, the state ranked third in personal bankruptcy filings in second quarter 2004, with over 40 percent of the Georgia counties recording increases from a year earlier. Similarly, foreclosures rates statewide ranked tenth in the nation.
- At the end of third quarter 2004, home equity loans grew 40 percent over the 12-month period to 2.1 percent of assets, up from 1.7 percent a year earlier. While still a relatively small asset class, the threat of rising interest rates and continued weak wage and job growth in 2005 may lead to higher debt service burdens, which may place further stress on the state's consumers. Signs of deteriorating loan performance have already emerged as both noncurrent and charged off home equity lines of credit rose during the period, but were still quite manageable.
- The effects of the severe 2004 hurricane season are still being compiled in Georgia but, with the exception of areas of agriculture, losses appear limited. Current long-term forecasts suggest that the Southeast may be entering a new cycle characterized by more frequent storm activity. If so, Georgia may face greater risks from hurricanes in the foreseeable future.

Georgia's community banks continue to experience solid earnings performance as profitability at larger banks lags.

- Earnings growth has continued at Georgia community banks (See Chart 3). During the 12 months ending September 30, 2004, net income rose 14 percent on a

merger-adjusted basis to a record high \$457 million. Both net interest margins (NIMs) and profitability improved. A greater decline in funding costs relative to asset yields, combined with improved efficiencies and lower provision expenses, led the increase.

- In contrast with Georgia's smaller banks, profitability measures at the state's larger institutions² weakened during third quarter 2004. Both the median NIM and ROA ratios declined for the second time in as many periods as sluggish loan growth and depreciation in the securities portfolio resulted in lower profitability at the state's larger banks. ROA fell slightly to 1.2 percent year-over-year while the NIM experienced a greater decline of 12 basis points to 3.35 percent during the same period.
- Despite a reduction in main offices from 1994 to 2004, branching activity in Georgia has outpaced that of the nation. Given the demographics of the Atlanta MSA, the majority of branching activity has taken place in this area. With the exception of the *Savannah* market, the other three large MSAs, *Macon*, *Columbus*, and *Augusta*, in terms of total deposits have experienced a reduction in the number of both main offices and branches during this decade (See Chart 4).

Chart 3: Contributions to Return on Assets at Georgia Community Banks

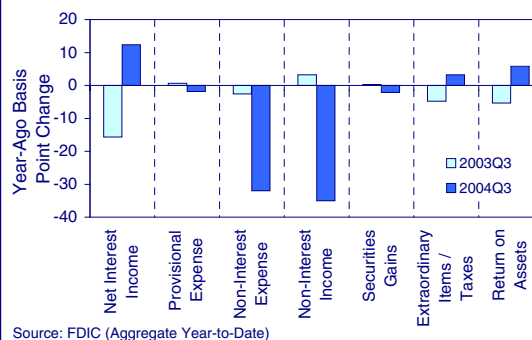
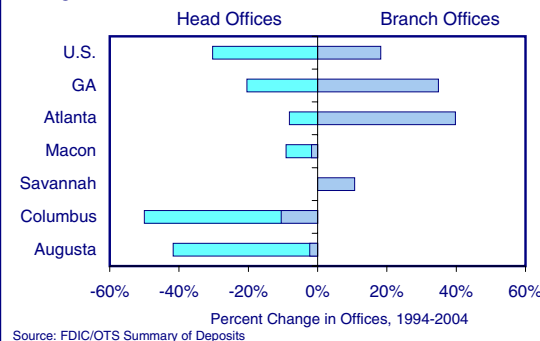


Chart 4: The Atlanta MSA Drives Branching Activity in Georgia



²Larger banks have assets greater than \$1 Billion and exclude specialty institutions.

Georgia at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	347	342	349	354	362
Total Assets (in thousands)	223,381,421	212,826,114	184,268,588	184,680,706	169,603,344
New Institutions (# < 3 years)	41	34	39	39	49
New Institutions (# < 9 years)	103	93	88	78	71
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.23	9.26	9.17	8.97	9.32
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.42%	1.84%	1.88%	2.25%	1.99%
Past-Due and Nonaccrual >= 5%	31	35	41	44	36
ALLL/Total Loans (median %)	1.31%	1.35%	1.32%	1.32%	1.33%
ALLL/Noncurrent Loans (median multiple)	2.39	1.83	1.97	1.95	2.48
Net Loan Losses/Loans (aggregate)	0.35%	0.45%	0.51%	0.68%	0.41%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	36	32	33	30	27
Percent Unprofitable	10.37%	9.36%	9.46%	8.47%	7.46%
Return on Assets (median %)	1.12	1.07	1.14	1.07	1.29
25th Percentile	0.70	0.69	0.69	0.62	0.88
Net Interest Margin (median %)	4.28%	4.19%	4.41%	4.34%	4.87%
Yield on Earning Assets (median)	5.93%	6.21%	7.09%	8.61%	9.04%
Cost of Funding Earning Assets (median)	1.63%	1.99%	2.62%	4.19%	4.19%
Provisions to Avg. Assets (median)	0.25%	0.25%	0.27%	0.24%	0.22%
Noninterest Income to Avg. Assets (median)	0.76%	0.80%	0.79%	0.77%	0.78%
Overhead to Avg. Assets (median)	3.02%	3.04%	3.10%	3.19%	3.23%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	88.79%	85.00%	84.46%	82.91%	81.54%
Loans to Assets (median %)	74.03%	71.60%	71.72%	69.10%	68.95%
Brokered Deposits (# of Institutions)	147	111	111	79	68
Bro. Deps./Assets (median for above inst.)	6.98%	5.99%	5.60%	4.19%	3.82%
Noncore Funding to Assets (median)	23.52%	22.00%	21.88%	22.25%	20.70%
Core Funding to Assets (median)	64.11%	66.29%	66.80%	66.19%	67.57%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	255	246	251	252	265
National	57	59	63	65	65
State Member	16	15	14	13	8
S&L	5	5	6	7	6
Savings Bank	14	17	15	17	18
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	201	32,875,424	57.93%	14.72%	
Atlanta GA	102	170,638,843	29.39%	76.39%	
Macon GA	11	2,099,063	3.17%	0.94%	
Savannah GA	8	1,379,648	2.31%	0.62%	
Chattanooga TN-GA	8	1,219,778	2.31%	0.55%	
Athens GA	6	1,818,902	1.73%	0.81%	
Columbus GA-AL	4	5,359,819	1.15%	2.40%	
Albany GA	4	889,086	1.15%	0.40%	
Augusta-Aiken GA-SC	3	7,100,858	0.86%	3.18%	